

**International Care Ministries
Foundation Inc.**
(A Nonstock, Nonprofit Corporation)

Financial Statements
May 31, 2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
International Care Ministries Foundation Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of International Care Ministries Foundation Inc. (a nonstock, nonprofit corporation), which comprise the statements of financial position as at May 31, 2017 and 2016, and the statements revenue and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at May 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Foundation's Financial Statements* section of our report. We are independent of the Foundation in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the Foundation's financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS for SMEs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 14 to the Foundation's financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of International Care Ministries Foundation Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Dyonabee B. Señeres

Partner

CPA Certificate No. 97133

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June 30, 2015, valid until June 29, 2018

Tax Identification No. 201-959-816

BIR Accreditation No. 08-001998-98-2015,
January 5, 2015, valid until January 4, 2018

PTR No. 5908762, January 3, 2017, Makati City

August 30, 2017



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

	May 31	
	2017	2016
ASSETS		
Current Assets		
Cash	₱14,701,085	₱9,620,273
Receivables (Note 4)	366,296	839,388
Inventories (Note 5)	65,736,286	106,883,796
Other current assets (Notes 6 and 13)	1,872,021	1,180,774
Total Current Assets	82,675,688	118,524,231
Noncurrent Assets		
Property and equipment (Note 7)	19,974,474	24,489,361
Security deposits (Note 13)	564,023	521,600
Total Noncurrent Assets	20,538,497	25,010,961
TOTAL ASSETS	₱103,214,185	₱143,535,192
LIABILITIES AND FUND BALANCE		
Current Liability		
Accounts payable and others (Note 8)	₱7,830,724	₱3,487,019
Noncurrent Liability		
Accrued retirement benefits (Note 12)	8,968,716	7,626,475
Total Liabilities	16,799,440	11,113,494
Fund Balance		
General fund	5,000	5,000
Accumulated excess of revenue over expenses	86,409,745	132,416,698
Total Fund Balance	86,414,745	132,421,698
TOTAL LIABILITIES AND FUND BALANCE	₱103,214,185	₱143,535,192

See accompanying Notes to Financial Statements.



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF REVENUE AND EXPENSES

	Years Ended May 31	
	2017	2016
REVENUE		
Donations from ICM Hong Kong (Note 11)	₱146,437,630	₱139,767,006
Donations of goods	144,889,294	234,115,579
Donations from Australia	5,193,165	7,638,461
Other donations	40,865,380	34,495,802
	337,385,469	416,016,848
PROJECT COSTS (Note 9)		
Strategic program	287,684,491	289,955,377
Program development	58,163,204	39,766,903
Health services program	15,834,990	15,163,459
Vision trip	10,047,560	5,970,395
Special project	–	1,627,481
Others	9,131,174	17,676,287
	380,861,419	370,159,902
GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	4,319,103	4,768,976
OTHER INCOME (LOSS)		
Gain (loss) on disposal of property and equipment (Note 7)	1,907,640	(106,260)
Foreign exchange gain (loss)	(137,863)	30,748
Interest income	18,323	14,058
	1,788,100	(61,454)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	(₱46,006,953)	₱41,026,516

See accompanying Notes to Financial Statements.



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE YEARS ENDED MAY 31, 2017 AND 2016

	General Fund	Accumulated Excess of Revenue Over Expenses	Total
BALANCES AT MAY 31, 2015	₱5,000	₱91,390,182	₱91,395,182
Excess of revenue over expenses for the year	–	41,026,516	41,026,516
BALANCES AT MAY 31, 2016	5,000	132,416,698	132,421,698
Deficiency of revenue over expenses for the year	–	(46,006,953)	(46,006,953)
BALANCES AT MAY 31, 2017	₱5,000	₱86,409,745	₱86,414,745

See accompanying Notes to Financial Statements



INTERNATIONAL CARE MINISTRIES FOUNDATION INC.**(A Nonstock, Nonprofit Corporation)****STATEMENTS OF CASH FLOWS**

	Years Ended May 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	(P46,006,953)	P41,026,516
Adjustments for:		
Depreciation (Notes 7, 9 and 10)	4,748,107	5,010,005
Retirement benefits cost - net (Note 12)	1,342,241	1,442,665
Loss (gain) on disposal of property and equipment (Note 7)	(1,907,640)	106,260
Foreign exchange loss (gain)	137,863	(30,748)
Interest income	(18,323)	(14,058)
Donation in kind (Note 7)	–	247,262
Excess (deficit) of revenue over expenses before working capital changes	(41,704,705)	47,293,378
Decrease (increase) in:		
Receivables	473,092	1,791,947
Inventories	41,147,510	(43,896,997)
Other current assets	(533,247)	(639,174)
Increase in accounts payable and others	4,343,705	423,280
Cash generated from operations	3,726,355	4,972,434
Interest received	18,323	14,058
Net cash provided by operating activities	3,744,678	4,986,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 7)	(1,118,822)	(2,221,966)
Proceeds from sale of property and equipment	2,793,242	205,513
Decrease (increase) in security deposits	(200,423)	98,000
Net cash provided by (used in) investing activities	1,473,997	(1,918,453)
EFFECT OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATE IN CASH		
	(137,863)	30,748
NET INCREASE IN CASH	5,080,812	3,098,787
CASH AT BEGINNING OF YEAR	9,620,273	6,521,486
CASH AT END OF YEAR	P14,701,085	P9,620,273

See accompanying Notes to Financial Statements.

INTERNATIONAL CARE MINISTRIES FOUNDATION INC.
(A Nonstock, Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

International Care Ministries Foundation Inc, (the Foundation), is a nonstock, nonprofit corporation registered with the Philippine Securities and Exchange Commission (SEC) on July 5, 1993. The Foundation was organized to make available Christian services for the glory of God in all aspects of community development and provide livelihood activities, leadership and comprehensive training for the less privileged. The Foundation partners with International Care Ministries Ltd. (ICM HK), a nonstock, nonprofit organization incorporated in Hong Kong. As a partner ministry with ICM HK, the Foundation receives support from sponsors to enable it to carry out its objectives and continue as a going concern entity.

The Foundation is exempt from payment of income tax under the 1997 National Internal Revenue Code, Section 30 (e), for nonstock corporations organized and operated exclusively for religious and charitable institutions.

The financial statements were approved and authorized for issue by the Foundation's Board of Trustees (BOT) on August 30, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements were prepared under the historical cost convention and are presented in Philippine Peso (₱), which is the Foundation's functional and presentation currency. All amounts were rounded off to the nearest Peso, except when otherwise indicated.

Statement of Compliance

The financial statements of the Foundation have been prepared in compliance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Cash

Cash includes cash on hand and in banks. Cash in bank earns interest at prevailing bank deposit rates.

Receivables

Receivables pertain to advances to officers and employees and third parties which are subject for liquidation and refund. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If not recoverable, an impairment loss is recognized immediately. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the statement of revenue and expenses.

Security and Containers' Deposits

Security deposits represent rental deposits to the lessor related to leased properties and are measured at amortized cost.

Deposits that are recoverable or consumable within twelve (12) months are classified as current; otherwise, they are classified as noncurrent.



Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost comprises the invoice amount and other directly attributable costs incurred in bringing the inventories to their present location and condition. NRV is determined by adjusting for inventory obsolescence generally provided for damaged inventories.

Advances to supplier

Advances to supplier pertains to advances for software development works. Amounts that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise these are classified as other noncurrent assets.

Prepaid Expenses

Prepaid expenses are amortized over the period covered by the payment and charged to the appropriate accounts in the statement of revenue and expenses when incurred.

Prepaid expenses that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise these are classified as other noncurrent assets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of property and equipment when that cost is incurred and if the recognition criteria are met. Maintenance and repairs that do not improve efficiency or extend economic life are expensed as incurred.

The depreciation of the property and equipment commences when the asset is available for use. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

	Number of Years
Buildings and improvements	10-30
Vehicles	4-10
Office furniture and equipment	3-5

Leasehold improvements are amortized over the estimated useful life of the improvements ranging from two to five years or the term of the lease, whichever is shorter.

If there is an indication that there has been a significant change in the depreciation method and estimated useful life of an item of property and equipment, the depreciation of that asset is revised prospectively to reflect the new expectations.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation, and any impairment in value are eliminated from the accounts. Any gain or loss resulting from their disposal is recognized in the statement of revenue and expenses.

Impairment of Property and Equipment

At each financial reporting date, property and equipment are reviewed to determine whether there is any indication that assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its



carrying amount. The recoverable amount of the property and equipment is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of revenue and expenses.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the statement of statement of revenue and expenses.

Accounts Payable and Others

Accounts payable and others are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Foundation is established. These amounts are measured as the amount paid or payable.

Fund balance

General fund represents the initial contribution of the members of the BOT. This is available for use in operations of the Foundation and disbursement from which is subject to approval.

Fund balance includes the cumulative balance of excess of revenue over expenses, effect of any change in accounting policy and other fund balance adjustments.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Foundation and the amount of the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Donations

Donations are recognized when actually received, earned or when right to receive is established. Donations of goods mainly consists of Nutripacks, supplies and shoes. Donations of goods in transit are recognized as revenue once loaded in the Philippine ports.

Interest Income

Interest income is recognized as it accrues.

Other Income

Other income is recognized when the related services or goods have been rendered or delivered and right to receive payment is established.

Cost and Expenses

Costs and expenses are recognized in the statement of revenue and expenses when decrease in future economic benefits related to the decrease in an asset or an increase in liability has arisen and can be measured reliably. These are recognized in the period they are incurred and measured at the amount paid or payable.

Project Costs

Project costs are recognized when costs associated to the delivery of goods and services to beneficiaries or members that fulfill the Foundation's mission are incurred.



General and Administrative Expenses

General and administrative expenses constitute costs of administering the operations and are expensed as incurred.

Retirement Benefits Cost

The cost of providing retirement benefits is determined using the projected unit credit method. The method reflects services rendered by the employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits cost include current service, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses and past service costs are recognized in their entirety in the statement of revenue and expenses.

The present value of the obligation (PVO) is the actuarial present value of expected future payments required to settle the obligation resulting from employee service in current and prior periods. The calculation of the PVO assumes that the plan continues to be in effect and that estimated future events (including compensation increases, turnover and mortality) occur.

Leases

Foundation as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the statement of revenue and expenses on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Events after Reporting Date

Events after the financial reporting date that provide additional information about the Foundation's position at the end of the financial reporting date (adjusting events) are reflected in the financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in compliance with PFRS for SMEs requires the Foundation to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of dates of the financial statements. Actual results could differ from estimates and assumptions used.



Judgments

In the process of applying the Foundation's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Operating lease - Foundation as a lessee

The Foundation has entered into office space and vehicle leases where the Foundation has determined that the significant risks and rewards for the leased properties are retained by the lessors.

Rent expense amounted to ₱4,444,818 and ₱4,023,071 for the years ended May 31, 2017 and 2016, respectively (see Notes 9 and 13).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting periods that have a significant risk of causing a material adjustment to the carrying amounts of the asset and liabilities within the next financial year are discussed below.

Impairment of property and equipment

The Foundation determines whenever there is any indication that its property and equipment are impaired. Indicators of impairment include physical deterioration and change in expected use of the asset, and negative cash flows from operations, among others. Future events could cause management to conclude that these assets may be impaired. No impairment loss was recognized in 2017 and 2016 since the Foundation believes that there are no indicators of impairment.

The carrying value of property and equipment amounted to ₱19,974,474 and ₱24,489,361 as of May 31, 2017 and 2016, respectively (see Note 7).

Retirement benefits cost and obligation

The determination of the Foundation's obligation and pension benefits cost is dependent on management's selection of certain assumptions in calculating such amounts. While the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Foundation's retirement benefit cost and obligation.

Retirement benefits cost amounted to ₱1,759,768 and ₱1,919,254 in 2017 and 2016, respectively. Accrued retirement benefits amounted to ₱8,968,716 and ₱7,626,475 as of May 31, 2017 and 2016, respectively (see Note 12).

4. Receivables

This account consists of:

	2017	2016
Advances to officers and employees	₱525,660	₱874,598
Others	7,800	238,500
	533,460	1,113,098
Less allowance for doubtful accounts (Note 10)	167,164	273,710
	₱366,296	₱839,388



Advances to officers and employees are for travels or other expenses related to program activities or administrative purposes which are subject to liquidation.

Provision for doubtful accounts was recognized for accounts identified as doubtful of collection amounting to ₱167,164 and ₱273,710 for the years ended May 31, 2017 and 2016, respectively (see Note 10). In 2017, receivables amounting to ₱273,710 were written off. These were fully provided for with allowance as of May 31, 2016.

5. Inventories - at Cost

This account consists of:

	2017	2016
Nutripacks	₱65,632,832	₱106,005,499
Supplies	34,362	314,306
Shoes	–	136,161
Others	69,092	427,830
	₱65,736,286	₱106,883,796

6. Other Current Assets

This account consists of:

	2017	2016
Advances to supplier	₱1,331,250	₱–
Prepaid expenses	194,971	763,974
Rental deposits (Note 13)	345,800	258,800
Containers' deposits	158,000	158,000
	2,030,021	1,180,774
Less allowance for uncollectible container deposit (Note10)	158,000	–
	₱1,872,021	₱1,180,774

Advances to supplier pertain to initial payments for the development works of the Foundation's data and analysis software, which already started as of May 31, 2017. As stated in the contract with the supplier, a cost ceiling of ₱3,500,000 shall be imposed to cover the services for the software, ₱1,331,250 of which has been paid.

In 2017, provision for uncollectible containers' deposit amounting to ₱158,000 was recognized for deposits that were identified as doubtful of collection (nil in 2016, see Note 10).



7. Property and Equipment

As of May 31, 2017:

	Land	Buildings and Improvements	Leasehold Improvements	Office Furniture and Equipment	Vehicles	Total
Cost						
Beginning balances	₱2,944,950	₱22,782,464	₱1,017,174	₱5,008,573	₱14,346,657	₱46,099,818
Additions	–	80,000	152,465	351,357	535,000	1,118,822
Disposals	(250,000)	–	(409,711)	(66,192)	(2,172,500)	(2,898,403)
Ending balances	2,694,950	22,862,464	759,928	5,293,738	12,709,157	44,320,237
Accumulated Depreciation and Impairment Losses						
Beginning balances	–	8,827,545	718,490	3,556,391	8,508,031	21,610,457
Depreciation (Notes 9 and 10)	–	622,452	232,346	1,048,782	2,844,527	4,748,107
Disposals	–	–	(409,711)	(56,549)	(1,546,541)	(2,012,801)
Ending balances	–	9,449,997	541,125	4,548,624	9,806,017	24,345,763
Net Book Values	₱2,694,950	₱13,412,467	₱218,803	₱745,114	₱2,903,140	₱19,974,474

As of May 31, 2016:

	Land	Buildings and Improvements	Leasehold Improvements	Office Furniture and Equipment	Vehicles	Total
Cost						
Beginning balances	₱2,944,950	₱22,704,464	₱923,974	₱5,237,000	₱13,424,763	₱45,235,151
Additions	–	78,000	93,200	508,134	1,789,894	2,469,228
Disposals	–	–	–	(736,561)	(868,000)	(1,604,561)
Ending balances	2,944,950	22,782,464	1,017,174	5,008,573	14,346,657	46,099,818
Accumulated Depreciation and Impairment Losses						
Beginning balances	–	8,210,422	548,789	3,029,542	6,104,487	17,893,240
Depreciation (Notes 9 and 10)	–	617,123	169,701	1,235,312	2,987,869	5,010,005
Disposals	–	–	–	(708,463)	(584,325)	(1,292,788)
Ending balances	–	8,827,545	718,490	3,556,391	8,508,031	21,610,457
Net Book Values	₱2,944,950	₱13,954,919	₱298,684	₱1,452,182	₱5,838,626	₱24,489,361

Donations of property and equipment amounted to ₱247,262 in May 2016 (nil in 2017). The cost of fully depreciated property and equipment that are still in use amounted to ₱3,338,952 and ₱1,373,918 as of May 31, 2017 and 2016, respectively.

The net book value of property and equipment disposed in 2017 and 2016 amounted to ₱885,602 and ₱311,773, respectively. The Foundation recognized ₱1,907,640 gain on sale in 2017 and ₱106,260 loss on sale in 2016 from the disposals.

8. Accounts Payable and Others

	2017	2016
Accounts payable	₱2,530,304	₱214,075
Accrued salaries	1,709,962	1,675,129
Withholding taxes, SSS, Philhealth, and HDMF premiums payable	782,685	786,207
Other accrued expenses	2,807,773	811,608
	₱7,830,724	₱3,487,019

Accounts payable are noninterest-bearing and are normally settled within one year.



Other accrued expenses represent incurred charges for meeting, travel, utilities and other services. These are noninterest-bearing and are normally settled within one year

9. Project Costs

As of May 31, 2017 and 2016:

2017	Strategic Program	Program Development	Health Services Program	Vision	Special Project	Others*	Total
Consumption of Nutripacks	₱171,898,267	₱19,166,382	₱735,897	₱-	₱-	₱8,055,278	₱199,855,824
Payroll and other employee benefits (Note 12)	48,312,830	11,359,172	3,573,450	-	-	394,272	63,639,724
Transportation and travel	14,062,850	4,471,852	2,187,191	10,047,560	-	200,821	30,970,274
Meeting expenses	4,093,119	10,123,954	123,734	-	-	71,991	14,412,798
Medical and office supplies	5,266,397	872,486	6,403,114	-	-	18,248	12,560,245
Outside services	9,335,370	1,689,482	198,241	-	-	6,000	11,229,093
Training expenses	6,247,509	1,877,777	125,751	-	-	32,702	8,283,739
Meals	6,346,731	323,647	888,637	-	-	15,582	7,574,597
Repairs and maintenance	5,137,402	1,791,812	293,590	-	-	-	7,222,804
Utilities	3,298,305	1,063,518	405,645	-	-	2,837	4,770,305
Rent (Note 13)	3,051,335	1,093,577	299,906	-	-	-	4,444,818
Depreciation (Note 7)	3,490,607	-	-	-	-	-	3,490,607
Scholarships	1,199,884	-	431,716	-	-	-	1,631,600
Distribution of Tom shoes	75,471	-	-	-	-	60,690	136,161
Others	5,868,414	4,329,545	168,118	-	-	272,753	10,638,830
	₱287,684,491	₱58,163,204	₱15,834,990	₱10,047,560	₱-	₱9,131,174	₱380,861,419

* Others consist mainly of costs related to the disaster relief operations in various provinces of the Philippines.

2016	Strategic Program	Program Development	Health Services Program	Vision	Special Project	Others*	Total
Consumption of Nutripacks	₱160,321,395	₱13,713,747	₱689,517	₱-	₱-	₱6,486,832	₱181,211,491
Payroll and other employee benefits (Note 12)	46,992,412	8,724,983	4,069,782	-	-	260,050	60,047,227
Transportation and travel	15,012,105	2,986,500	695,497	5,970,395	1,627,481	27,795	26,319,773
Meeting expenses	3,024,449	5,484,680	195,603	-	-	3,780	8,708,512
Medical and office supplies	4,860,434	369,792	6,261,358	-	-	2,681	11,494,265
Outside services	8,832,906	546,779	168,190	-	-	26,700	9,574,575
Training expenses	6,432,825	1,471,306	189,020	-	-	1,188	8,094,339
Meals	3,604,880	9,854	699,061	-	-	-	4,313,795
Repairs and maintenance	5,029,243	1,245,298	340,581	-	-	15,211	6,630,333
Utilities	3,624,791	714,621	634,930	-	-	866	4,975,208
Rent (Note 13)	2,885,242	685,368	448,786	-	-	3,675	4,023,071
Depreciation (Note 7)	3,624,101	-	-	-	-	-	3,624,101
Scholarships	1,140,835	-	563,704	-	-	-	1,704,539
Distribution of Tom shoes	20,177,775	-	-	-	-	-	20,177,775
Others	4,391,984	3,813,975	207,430	-	-	10,847,509	19,260,898
	₱289,955,377	₱39,766,903	₱15,163,459	₱5,970,395	₱1,627,481	₱17,676,287	₱370,159,902

* Others consist mainly of costs related to the disaster relief operations in various provinces of the Philippines.



10. General and Administrative Expenses

	2017	2016
Depreciation (Note 7)	₱1,257,500	₱1,385,904
Transportation and travel	692,327	457,726
Training expenses	627,017	903,830
Bank charges	357,450	548,672
Provision for doubtful accounts (Notes 4 and 6)	325,164	273,710
Outside services	319,730	–
Taxes and licenses	239,864	209,627
Consumption of Nutripacks	238,615	14,044
Meeting expenses	104,869	485,247
Office and medical supplies	1,551	5,350
Payroll and other employee benefits	–	343,100
Others	155,016	141,766
	₱4,319,103	₱4,768,976

11. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or trustees.

The following are the Foundation's significant related party transactions:

- a. ICM HK, a nonstock, nonprofit organization, having some common directors with the Foundation, provides the operating fund requirements of the Foundation. Donations received from ICM Hong Kong amounted to ₱146,437,630 and ₱139,767,006 for the years ended May 31, 2017 and 2016, respectively.
- b. The Foundation's financial and administrative functions are handled by ICMManila, Inc. (ICMMI; a nonstock, nonprofit organization with some common directors) at no cost to the Foundation. The Foundation also obtains/provides advances from/to ICMMI but collected within the fiscal year.
- c. Compensation of the key management personnel is assumed by ICM HK. Required disclosures under Section 33, *Related Party Disclosures* of PFRS for SMEs are disclosed in the financial statements of ICM HK.

12. Retirement Benefits

The components of retirement benefit obligation based on an actuarial valuation report are presented in the succeeding tables. The Foundation obtains an actuarial valuation by hiring the services of a third party professionally qualified actuary.



The components of retirement benefits recognized in statement of revenue and expenses are as follows:

	2017	2016
Current service cost	₱1,363,191	₱1,364,768
Interest cost	396,577	327,742
Net actuarial loss	–	226,744
Retirement benefits cost (Note 9)	₱1,759,768	₱1,919,254

Movements in accrued retirement benefits as of May 31 are as follows:

	2017	2016
Balance at beginning of year	₱7,626,475	₱6,183,810
Current service cost	1,363,191	1,364,768
Interest cost	396,577	327,742
Net actuarial loss	–	226,744
Benefits paid	(417,527)	(476,589)
Balances at end of year	₱8,968,716	₱7,626,475

The assumptions used to determine the retirement benefits as of May 31 are as follow:

	2017	2016
Discount rate	5.20%	5.20%
Salary increase rate	4.00%	4.00%

13. Lease Agreements

The Foundation leases various office spaces that expires over periods over the next five (5) years. Rental deposits amounted to ₱909,823 and ₱780,400 as of May 31, 2017 and 2016, respectively (of which, ₱345,800 and ₱258,800 as of May 31, 2017 and 2016, respectively, is shown as “Other current assets” in Note 6). The rental deposits will be applied against unpaid obligation of the Foundation at the end of the lease term, provided that whatever remaining amount after payment of unpaid obligation shall be returned to the Foundation. The Foundation may terminate the contract early, provided that, prior to the termination, a written notice is given to the lessors.

On March 3, 2017, the Foundation entered into an Operating Lease Facility with BPI Century Tokyo Rental Corporation (the Lessor) for brand new motor vehicles amounting to ₱10.0 million. On March 6, 2017, the Foundation entered into an operating lease agreement (the Agreement) with the Lessor for the lease of specific vehicles with lease term of 36 to 42 months and fixed monthly rent payments.

The Agreement allows the Foundation to cancel or early terminate the individual vehicle leased prior to expiry, subject to payment of liquidated damages to the lessor. The vehicles are, at all times, the sole and exclusive property of the Lessor and the Agreement gives no option to the Foundation to purchase or otherwise acquire title to the vehicles during the entire lease term. The Foundation may, at its option, renew the lease upon expiration of the original lease term, subject to the Lessor’s approval. In addition, the Agreement requires the Foundation to pay for repairs and maintenance, insurance, taxes and licenses, and a penalty for usage above a standard mileage allowance.



As of May 31, 2017, seven (7) out of 14 vehicles were received. Total future minimum lease payments as of May 31, 2017 are as follows:

	Within one year	One to five years
Minimum lease payments	₱1,214,072	₱2,677,173

Rental expense related to operating lease agreements amounted to ₱4,444,818 and ₱4,023,071 for the years ended May 31, 2017 and 2016, respectively (see Note 9).

14. Supplementary Information Required under Revenue Regulations 15-2010

Summarized below are the taxes paid or accrued by the Foundation for the fiscal year 2017:

Taxes and Licenses

Total amount paid by the Foundation for the taxes and licenses in 2017 amounted to ₱239,864 included under “Taxes and licenses” classified as “General and Administrative Expenses” in the statement of revenue and expenses.

Business permits and licenses	₱178,859
Taxes and licenses	37,583
Others	23,422
	<u>₱239,864</u>

Withholding Taxes

The following are the categories of the Foundation’s withholding taxes:

	Paid	Accrued
Withholding taxes on compensation and benefits	₱1,254,067	₱98,999
Expanded withholding taxes	236,099	10,275
	<u>₱1,490,166</u>	<u>₱109,274</u>

Accrued withholding taxes are included in “Accounts payable and others” in the Foundation’s statement of financial position.



ICMManila, Inc.
(A Nonstock, Not for Profit Organization)

Financial Statements
May 31, 2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
ICMManila, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of ICMManila, Inc. (a nonstock, nonprofit association), which comprise the statements of financial position as at May 31, 2017 and 2016, and the statements of revenue and expenses, statements of changes in fund balance and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at May 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Foundation in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS for SMEs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.



Auditor's Responsibilities for the Audit of the Foundation's financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 9 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of ICMManila, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Dyonabee B. Señeres

Partner

CPA Certificate No. 97133

SEC Accreditation No. 1196-AR-1 (Group A),
June 30, 2015, valid until June 29, 2018

Tax Identification No. 201-959-816

BIR Accreditation No. 08-001998-98-2015,
January 5, 2015, valid until January 4, 2018

PTR No. 5908762, January 3, 2017, Makati City

August 30, 2017



ICMMANILA, INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF FINANCIAL POSITION

	May 31	
	2017	2016
ASSETS		
Current Assets		
Cash	₱930,180	₱250,924
Advances to officers and employees	–	82,505
Prepayments and other current assets (Note 8)	534,225	503,153
Total Current Assets	1,464,405	836,582
Noncurrent Asset		
Property and equipment (Note 4)	127,938	349,424
TOTAL ASSETS	₱1,592,343	₱1,186,006
LIABILITIES AND FUND BALANCE		
Current Liability		
Accounts payable and others (Note 5)	₱1,836,619	₱1,738,089
Noncurrent Liability		
Accrued retirement benefits (Note 7)	2,933,962	2,405,921
Total Liabilities	4,770,581	4,144,010
Fund Balance		
General fund (Note 6)	1,000,000	1,000,000
Accumulated deficit of revenue over expenses	(4,178,238)	(3,958,004)
Total Fund Balance	(3,178,238)	(2,958,004)
TOTAL LIABILITIES AND FUND BALANCE	₱1,592,343	₱1,186,006

See accompanying Notes to Financial Statements.



ICMMANILA, INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF REVENUE AND EXPENSES

	Years Ended May 31	
	2017	2016
REVENUE		
Donations from ICM Hong Kong (Note 6)	₱23,848,000	₱25,501,000
EXPENSES		
Payroll and other employee benefits (Note 7)	13,846,660	13,424,375
Transportation and travel	3,711,888	4,784,216
Utilities	2,058,806	2,018,850
Rent (Note 8)	1,782,111	1,686,941
Meeting expense	1,153,839	703,150
Office supplies	303,107	367,909
Depreciation (Note 4)	239,486	305,085
Consulting fee	82,860	943,472
Others	985,411	2,557,782
	24,164,168	26,791,780
OTHER INCOME		
Interest income	382	279
Others (Note 5)	95,552	2,200
	95,934	2,479
DEFICIENCY OF REVENUE OVER EXPENSES	(₱220,234)	(₱1,288,301)

See accompanying Notes to Financial Statements.



ICMMANILA, INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF CHANGES IN FUND BALANCE

	General Fund	Accumulated Deficiency of Revenue Over Expenses	Total
BALANCES AT MAY 31, 2015	₱1,000,000	(₱2,669,703)	(₱1,669,703)
Deficiency of revenue over expenses for the year	–	(1,288,301)	(1,288,301)
BALANCES AT MAY 31, 2016	1,000,000	(3,958,004)	(2,958,004)
Deficiency of revenue over expenses for the year	–	(220,234)	(220,234)
BALANCES AT MAY 31, 2017	₱1,000,000	(₱4,178,238)	(₱3,178,238)

See accompanying Notes to Financial Statements.



ICMMANILA, INC.
(A Nonstock, Nonprofit Association)

STATEMENTS OF CASH FLOWS

	Years Ended May 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficiency of revenue over expenses	(₱220,234)	(₱1,288,301)
Adjustments for:		
Retirement benefit expense (Note 7)	528,041	292,813
Depreciation (Note 4)	239,486	305,085
Interest income	(382)	(279)
Excess (deficiency) of revenue over expenses before working capital changes	546,911	(690,682)
Decrease (increase) in:		
Advances to officers and employees	82,505	(34,191)
Prepayments and other current assets	(31,072)	45,970
Increase in accounts payable and others (Note 5)	98,530	(531,183)
Net cash generated from operations	696,874	(1,210,086)
Interest received	382	279
Net cash provided by (used in) operating activities	697,256	(1,209,807)
CASH FLOWS FROM INVESTING ACTIVITY		
Acquisitions of property and equipment (Note 4)	(18,000)	(33,530)
NET INCREASE (DECREASE) IN CASH	679,256	(1,243,337)
CASH AT BEGINNING OF YEAR	250,924	1,494,261
CASH AT END OF YEAR	₱930,180	₱250,924

See accompanying Notes to Financial Statements.



ICMMANILA, INC.
(A Nonstock, Nonprofit Association)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

ICMManila, Inc. (the “Foundation”) is a nonstock, nonprofit association registered with the Philippine Securities and Exchange Commission (SEC) on June 28, 2010. The Foundation was organized to make available Christian services for the glory of God in all aspects of community development, provide livelihood activities, leadership and comprehensive training for the less privileged. It is a Christian nonstock, nonprofit and non-denominational organization, established for charitable purposes. The Foundation partners with the International Care Ministries Ltd. (ICM HK), a nonstock, nonprofit organization incorporated in Hong Kong. As a partner ministry with ICM HK, the Foundation receives support from sponsors to enable it to carry out its objectives.

The Foundation is exempt from payment of income tax under the 1997 National Internal Revenue Code, Section 30 (e), for nonstock corporation organized and operated exclusively for religious and charitable institutions.

On April 6, 2017, the Foundation obtained its certificate of tax exemption from the Bureau of Internal Revenue valid for three (3) years.

The financial statements were approved and authorized for issue by the Foundation’s Board of Trustees (BOT) on August 30, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis and are presented in Philippine Peso (₱), which is the Foundation’s functional and presentation currency. All amounts are rounded off to the nearest Peso, unless otherwise indicated.

Statement of Compliance

The financial statements of the Foundation have been prepared in compliance with Philippine Financial Reporting Standards for Small and Medium-sized Entities for Small and Medium-sized Entities (PFRS for SMEs).

Financial Instruments

Cash

Cash includes cash on hand and in bank. Cash in bank earns interest at prevailing bank deposit rates.

Security Deposits

Security deposits represent rental deposits to the lessor related to lease properties and are measured at amortized cost. Deposits held by the Foundation for realization within 12 months from reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.



Accounts Payable and Others

Accounts payable and others are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Foundation is established

Advances to officers and employees

Advances to officers and employees are subject to liquidation. At the end of each reporting period, the carrying amounts of advances are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in profit or loss.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the statement of revenue and expenses.

Prepayments

Prepayments are amortized over the period covered by the payment and charged to the appropriate accounts in the statement of revenue and expenses when incurred.

Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets; otherwise these are classified as other noncurrent assets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of property and equipment when that cost is incurred and if the recognition criteria are met. Cost excludes the day-to-day servicing of the asset.

The depreciation of the property and equipment commences when the asset is available for use. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

	<u>Number of years</u>
Office equipment	3
Furniture and fixtures	5

Leasehold improvements are amortized over the estimated useful life of the improvements ranging from two to five years or the term of the lease, whichever is shorter.

If there is an indication that there has been a significant change in the depreciation method and estimated useful life of an item of property and equipment, the depreciation of that asset is revised prospectively to reflect the new expectations.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation, and any impairment in value are eliminated from the accounts. Any gain or loss resulting from their disposal is recognized in the statement of revenue and expenses. Property and equipment are stated at cost less accumulated depreciation and any impairment in value.



Impairment of Property and Equipment

At each financial reporting date, property and equipment are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. The recoverable amount of property and equipment is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the statement of revenue and expenses.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the statement of revenue and expenses.

Fund Balance

General fund represents the initial contribution of the members of the BOT. The general fund is available for use in operations of the Foundation and disbursement from which is subject to approval.

Fund balance includes the cumulative balance of excess (deficit) of revenue over expenses, effect of any change in accounting policy and other fund balance adjustments.

Revenue and Income Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Foundation and the amount of the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Donations

Donations are recognized when actually received, earned or when right to receive is established.

Interest Income

Interest income is recognized as it accrues.

Other Income

Other income is recognized when the related services or goods have been rendered or delivered and right to receive payment is established.

Expenses

Expenses are recognized in the statement of revenue and expenses when decrease in future economic benefits related to the decrease in an asset or an increase in liability has arisen and can be measured reliably. These are recognized in the period they are incurred and measured at the amount paid or payable.

Retirement Benefits Cost

The cost of providing retirement benefits is determined using the projected unit credit method. The method reflects services rendered by the employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits cost include current



service, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses and past service costs are recognized in their entirety in the statement of revenue and expenses.

The present value of the obligation (PVO) is the actuarial present value of expected future payments required to settle the obligation resulting from employee service in current and prior periods. The calculation of the PVO assumes that the plan continues to be in effect and that estimated future events (including compensation increases, turnover and mortality) occur.

Leases

Foundation as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the statement of revenue and expenses on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Foundation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Events After Reporting Date

Events after the financial reporting date that provide additional information about the Foundation's position at the end of the financial reporting date (adjusting events) are reflected in the financial statements. Events after the financial reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in compliance with PFRS for SMEs requires the Foundation to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of dates of the financial statements. Actual results could differ from estimates and assumptions used.

Judgments

In the process of applying the Foundation's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:



Use of going concern assumption

Management has made an assessment and is satisfied of the Foundation's ability to continue as a going concern entity. The Foundation continuously receives support from sponsors, as a partner ministry with ICM HK, to enable it to carry out its objectives. Accordingly, the financial statements were prepared assuming that the Foundation will realize its assets and discharge its liabilities on the normal course of operations.

Impairment of property and equipment

The Foundation determines whenever there is any indication that its property and equipment are impaired. Indicators of impairment include physical deterioration of the asset, among others. Future events could cause management to conclude that these assets may be impaired.

As of May 31, 2017 and 2016, management believes that no indicators of impairment exist for the Foundation's property and equipment. The carrying value of property and equipment amounted to ₱127,938 and ₱349,424 as of May 31, 2017 and 2016, respectively (see Note 4).

Operating lease - Foundation as a lessee

The Foundation has entered into a commercial property lease where the Foundation has determined that the significant risks and rewards for the leased property are retained by the lessor. Rent expense amounted to ₱1,782,111 and ₱1,686,941 for the years ended May 31, 2017 and 2016, respectively (see Note 8).

Estimate and Assumption

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts of the asset and liabilities within the next financial year are discussed below.

Retirement benefits cost and obligation

The determination of the Foundation's retirement obligation and pension benefits cost is dependent on management's selection of certain assumptions including salary increase and discount rates in calculating such amounts. While the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Foundation's retirement benefit cost and obligation.

Retirement benefits cost amounted to ₱528,041 in 2017 and ₱292,813 in 2016. Accrued retirement benefits amounted to ₱2,933,962 and ₱2,405,921 as of May 31, 2017 and 2016, respectively (see Note 7).



4. Property and Equipment

As of May 31, 2017:

	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Beginning balances	₱1,203,873	₱159,034	₱14,871	₱1,377,778
Additions	18,000	–	–	18,000
Ending balances	1,221,873	159,034	14,871	1,395,778
Accumulated Depreciation				
Beginning balances	946,535	67,774	14,045	1,028,354
Depreciation for the year	206,853	31,807	826	239,486
Ending balances	1,153,388	99,581	14,871	1,267,840
Net Book Values	₱68,485	₱59,453	₱–	₱127,938

As of May 31, 2016:

	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost				
Beginning balances	₱1,170,343	₱159,034	₱14,871	₱1,344,248
Additions	33,530	–	–	33,530
Ending balances	1,203,873	159,034	14,871	1,377,778
Accumulated Depreciation				
Beginning balances	678,214	35,967	9,088	723,269
Depreciation for the year	268,321	31,807	4,957	305,085
Ending balances	946,535	67,774	14,045	1,028,354
Net Book Values	₱257,338	₱91,260	₱826	₱349,424

The cost of fully depreciated property and equipment that are still in use amounted to ₱700,811 and ₱497,306 as of May 31, 2017 and 2016, respectively.

5. Accounts Payable and Others

	2017	2016
Accounts payable	₱191,975	₱69,793
Accrued salaries	472,513	417,740
Other accrued expenses	945,905	903,278
Withholding taxes, income tax payable, SSS HDMF, and PHIC premiums payable	226,226	347,278
	₱1,836,619	₱1,738,089

Accounts payable are noninterest-bearing and are normally settled within one year.

Other accrued expenses represent incurred charges for meeting, travel, utilities and other services. These are noninterest-bearing and are normally settled within one year

In 2017, the Foundation reversed long outstanding accruals and provision amounting to ₱95,552, which is presented under “Other income” in the statement of revenue and expenses. Obligations related to these were determined to be no longer existing.



6. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or trustees. The following are the Foundation's significant related party transactions:

- a. International Care Ministries Ltd. (ICM HK), a nonstock, nonprofit organization having some common directors with the Foundation, provides the operating fund requirements of the Foundation. Donations received from ICM HK amounted to ₱23,848,000 and ₱25,501,000 for the years ended May 31, 2017 and 2016, respectively.
- b. Initial contribution of the members of the BOT at the inception of the Foundation amounted to ₱1,000,000. This is presented as "General fund" in the statement of financial position.
- c. The Foundation handles the financial and administrative functions of International Care Ministries Foundation, Inc. (ICMFI), a nonstock, nonprofit organization with some common directors with the Foundation, at no cost to ICMFI. Certain costs and expenses of the Foundation are paid for by ICMFI subject to reimbursement. These are fully settled as of May 31, 2017 and 2016.
- d. Compensation of the key management personnel is assumed by ICM HK. Required disclosures under Section 33, *Related Party Disclosures* of PFRS for SMEs are disclosed in the financial statements of ICM HK.

7. Retirement Benefits

The components of retirement benefit obligation based on an actuarial valuation report are presented in the succeeding tables. The Foundation obtains an actuarial valuation by hiring the services of a third party professionally qualified actuary.

The components of retirement benefits recognized in statement of revenue and expenses are as follows:

	2017	2016
Current service cost	₱402,933	₱427,703
Interest cost	125,108	111,995
Net actuarial gain	-	(246,885)
Retirement benefits cost	₱528,041	₱292,813

Changes in accrued retirement benefits as of May 31 are as follows:

	2017	2016
Balance at beginning of year	₱2,405,921	₱2,113,108
Current service cost	402,933	427,703
Interest cost	125,108	111,995
Net actuarial gain	-	(246,885)
Balances at end of year	₱2,933,962	₱2,405,921



The assumptions used to determine the retirement benefits as of May 31 are as follow:

	2017	2016
Discount rate	5.20%	5.20%
Salary increase rate	4.00%	4.00%

8. Lease Agreement

In July 2013, the Foundation entered into a lease agreement covering its office space from July 15, 2013 to July 15, 2016. Upon expiry of the lease term, the lease contract was not terminated and the Foundation continued to lease its office space on a month to month basis until a new lease agreement was negotiated with new lease term from February 1, 2017 to January 31, 2018. The lease maybe extended for another year on terms and conditions mutually agreed upon by the parties.

Security deposits related to the lease agreement amounted to ₱425,250 as of May 31, 2017 and 2016, classified under “Prepayments and other current assets” account in the statement of financial position. Rental expense amounted to ₱1,782,111 and ₱1,686,941 for the years ended May 31, 2017 and 2016, respectively.

9. Supplementary Information Required under Revenue Regulations 15-2010

In compliance with the requirements set forth by Revenue Regulation 15-2010, hereunder are the information on taxes and licenses, fees paid or accrued during the taxable year 2017:

Taxes and License Fees

The Foundation paid ₱500 for 2017 taxes and licenses included under “Others” classified as “Expenses” in the statement of revenue and expenses.

Withholding Taxes

The following are the categories of the Foundation’s withholding taxes:

	Paid	Accrued
Withholding taxes on compensation and benefits	₱1,185,810	₱91,216
Expanded withholding taxes	87,826	6,887
	₱1,273,636	₱98,103

Accrued withholding taxes are included in “Accounts payable and others” in the Foundation’s statement of financial position.

